



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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December 10, 2004

TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: Status Report - Sheriff Contract City Billing Practices

At the May 25, 2004 meeting, your Board directed the Auditor-Controller, in conjunction with the Sheriff's Department, Chief Administrative Office (CAO) and County Counsel to immediately begin implementing the recommendations in the CAO's "Review of Contract Law Enforcement Services Costs" report issued on May 20, 2004. The Board specifically requested a review of each of the Sheriff's organizational units and support costs to identify costs that are excluded from the contract city cost model by Board policy established in the 1970's, and to make recommendations regarding billing those costs. We were also requested to report on potential unintended outcomes of billing the costs, including potential impacts to public safety.

We are conducting our review in two separate phases. In Phase I of our review, we will analyze organizational units that are administrative in nature and generally provide internal support services to the Sheriff's Department (e.g., Facility Services, Internal Affairs, Data Systems, etc.). This status report includes preliminary findings for six of 14 Sheriff internal support units.

In Phase II, we will report on services/units, currently unbilled by Board policy, that generally provide direct services to the public (e.g., Homicide, Arson, Narcotics, etc.). It appears that billing for these direct services would require a Board policy change. Therefore, we are working with the Sheriff and CAO, with input from the California Contract Cities Association (CCCA) and Independent Cities Association (ICA), to develop principles/criteria of Countywide services. These principles will include definitions of the types of issues the Board could consider when evaluating whether to define a service as Countywide. A listing of the organizational units that we plan to review in each phase of our audit is included in Attachment II.

"To Enrich Lives Through Effective and Caring Service"

Scope

Our review included an examination of the Government Code Section 51350, Gonsalves, and current Board policies regarding the types of costs that can and cannot be billed to contract and independent cities. We also reviewed services provided by the Sheriff's organizational units that are not currently billed to determine whether the services are potentially attributable to contract and independent cities. Further, we reviewed data the Department maintained on the portion of the unbilled functions/services that are attributable to contract and independent cities.

In addition, we contacted other county sheriff's departments, and compared their billed cost components with Los Angeles County. However, to date we have not gathered sufficient information to report on these comparisons.

For each organizational unit reviewed, we identified potential billing methods for currently unbilled costs and potential unintended outcomes of billing the costs, including potential impacts to public safety.

Status

To date we have reviewed six Sheriff organizational units that are currently excluded from the contract city billing rates. These functions/services are Field Operations Region Administration, Office of the Undersheriff, Facility Services, Internal Affairs, Search and Rescue Unit, and Advanced Training. For each function/service, we estimated the portions attributable to contract and independent cities. These six functions/services have combined costs totaling approximately \$72 million.

Summary of Findings to Date

Our review disclosed that a portion of the costs for all six units/functions that were previously excluded from contract city billings, appear to be billable to contract cities without a Board policy change. County Counsel is in agreement that these costs could be billed without violating existing law or Board policy.

Our preliminary estimates indicate that billing for these services could potentially result in over \$9.1 million being allocated to contract cities. Specifically, we noted the following:

- Three support services (Field Operations Region Administration, Internal Affairs Bureau, and the Bureau of Compliance portion of the Office of the Undersheriff) appear to be billable according to current Board policy. We estimate that including costs for these three units/functions in the billing rates could result in an additional \$4.3 million being billed to contract cities annually.
- Two support services (Facility Services and Advanced Training) currently have only a portion of their costs (5% and 75%, respectively) included in the contract

cities billing model. However, Board policy does not indicate that any of these costs should be excluded from the contract city billing rates and therefore, we believe that 100% of the contract cities' portion of these costs could be included in the cost model. We estimate that including the full costs attributable to contract cities for these units/functions could result in an additional \$4.8 million being billed to contract cities annually.

- One unit (Search and Rescue) is currently billable according to the Government Code, which indicates that a County can bill the city of residence for any person searched for and rescued by the Sheriff if the costs exceed \$100. We are currently working with the Department to evaluate the practicality of billing for these services and estimate the impact of collecting these costs.

Details of our findings are included in Attachment I. A chart summarizing the impact of including currently billable costs into the contract city billing rates is included in Attachment III. It must be noted that the estimates of the potential billing impact discussed above are preliminary and could change if the Sheriff provides additional data on amounts attributable to contract cities.

Next Steps

Our next status report on Phase I functions/services will focus on the remaining eight unbilled administrative organizational units that are generally internal to the Sheriff's Department. We will also continue working with the Sheriff, CAO, CCCA, and ICA to identify principles of Countywide services in order to assist the Board in making decisions regarding billing for services currently considered by Board policy as Countywide.

As directed by the Board, we will issue our next status report by the end of December 2004 and we plan to complete Phase I our review by February 2005.

Review of Report

We have discussed the preliminary results of our review with the Sheriff, CAO, County Counsel, CCCA and ICA. These discussions are summarized below.

Sheriff Department Concerns

Sheriff management believes that our preliminary estimates of amounts attributable to contract cities may be too high for all six units reviewed. We are working with the Sheriff to refine the cost data and ensure that only appropriate costs are attributed to contract cities. Sheriff management also expressed concerns that a significant city rate increase will result in a reduction in the number of positions cities purchase rather than additional County revenue. Sheriff management believes that service reductions could impact the safety of County citizens.

County Counsel

As noted above, County Counsel is in agreement that the contract cities' portion of the costs identified in this status report could be billed to contract cities without violating existing law or Board policy.

CCCA and ICA Concerns

We have held two meetings with CCCA and ICA representatives. These organizations continue to express overall opposition to the Board's order for the Auditor-Controller to re-examine certain specialized functions/units that have not been billed per existing Board policy. Examples of these functions/units include Homicide, Narcotics and Scientific Services all of which have been provided to cities as Countywide services over the past 30 years. In November 2004, the CCCA and ICA sent a letter to the Board expressing their concerns in these areas.

We are continuing to have ongoing discussions with stakeholders regarding our review and findings.

If you have any questions, please contact me or your staff may contact Mike Pirolo at (626) 293-1110.

JTM:MMO:MP

Attachments

c: David E. Janssen, CAO
Leroy D. Baca, Sheriff
Raymond G. Fortner, County Counsel
Violet Varona-Lukens, Executive Officer
Public Information Officer
Audit Committee
California Contract Cities Association
Independent Cities Association

Sheriff Contract City Billing Practices Status Report

Background

The Sheriff's Department (Sheriff or Department) provides law enforcement services to the unincorporated areas of the County and to 40 cities in the County that contract with the Sheriff for those services. The services include all aspects of a complete functioning police department for the contracting city. The Department also provides several types of specialized services; such as narcotics and homicide investigations, internal affairs investigations, and training to all cities, including the County's 48 independent cities.

California Government Code Section 51350, Gonsalves, provides legal guidelines on direct and indirect support costs that can be billed to cities for law enforcement services. While the Gonsalves code provides general guidelines on unbillable services, the determination on which expenditures should be included/excluded in the amounts billed is based on Board policy. In addition, the Government Code indicates that a County shall not charge a city for general overhead costs of County government. The Code defines general overhead costs as those costs which a county would incur regardless of whether or not it provided a service to a city.

The Sheriff negotiates and agrees upon service levels (i.e. number of deputies and other sworn/non-sworn staff) with contract city managers and uses a billing rate by position (i.e. deputy generalist, sergeant, etc.) to charge cities for law enforcement services. The billing rates are based on methodology from a cost study performed by Booz, Allen and Hamilton in 1972, and modified based on recommendations from a report issued by the Chief Administrative Office (CAO) on May 21, 1973. The Board of Supervisors adopted the billing recommendations from these two reports as County policy.

For FY 2004-05, the Sheriff anticipates law enforcement revenues from contract cities of approximately \$180 million.

Scope/Objective

At the May 25, 2004 meeting, your Board directed the Auditor-Controller, in conjunction with the Sheriff's Department, Chief Administrative Office (CAO) and County Counsel to immediately begin implementing the recommendations in the CAO's "Review of Contract Law Enforcement Services Costs" report issued on May 20, 2004. The Board specifically requested a review of each of the Sheriff's organizational units and support costs to identify costs that are excluded from the contract city cost model by Board policy established in the 1970's, and to make recommendations regarding billing those costs. We were also requested to report on potential unintended outcomes of billing the costs, including potential impacts to public safety.

To date we have examined the related Government Code sections and current Board policies regarding the types of costs that can and cannot be billed to contract and independent cities. Further, we analyzed the data maintained by the Department on the portion of the unbilled functions/services that are attributable to contract and independent cities.

Currently Billable Units/Functions

Based on our review of Board policies and State regulations, it appears that the costs attributable to contract cities from all six units reviewed to date are currently billable under existing law and Board policy. County Counsel agrees that costs from these units that are attributable to contract cities could be billed.

Field Operations Region Administration

The Sheriff's Department has three Field Operations Region (FOR) Administrative units which provide executive oversight and general support services to the patrol regions. These services are directly linked to all patrol units, including contract city patrol units. However, these services do not directly benefit independent cities. The CAO's May 20, 2004 report identified \$9.1 million (\$4.4 million, \$2.0 million and \$2.7 million for Regions I through III, respectively) in administrative expenditures related to these three units that are not included in the contract city billing rates.

Current Board policy states that patrol division administration should be a chargeable item in the contract law enforcement rates. Therefore, we believe the Sheriff's current FOR Administration costs are billable. Current Board policy also states that patrol administrative costs should be allocated based on the percentage of deputies serving contract cities compared with the total number of deputies deployed. Our preliminary estimates indicate that if this method is used, approximately \$2.7 million of the \$9.1 million FOR Administrative costs would be allocated to contract cities and the rate for each position purchased would increase by approximately 1.5%. For example, the cost for each 40-hour patrol deputy purchased would increase from \$177,117 to \$179,740 or approximately \$2,600 per year.

Sheriff Concerns - Field Operations Administration

Sheriff management indicated that there could be non-patrol related costs included in the FOR Administration category. We are working with the Sheriff to identify these costs and ensure they are not included in any amounts billed to contract cities.

Internal Affairs Bureau

The Internal Affairs Bureau investigates allegations of policy violations, major force incidents (i.e., officer involved shootings, riots, etc.) and the misconduct on the part of department personnel. For FY 2004-05, the CAO's May 2004 report estimates \$6.3 million in unbilled Internal Affairs expenditures.

We noted that the May 1973 CAO report (adopted as Board policy) indicates that the Administrative Services Bureau (ASB) acted as the internal investigative unit for the Sheriff's Department and that the services provided by the ASB "very clearly establish it as a chargeable cost factor to be included in contract law enforcement rates." We noted that these internal investigative services are currently being provided by the Sheriff's Internal Affairs Bureau. Therefore, we believe the Bureau's costs could be included in the cost model.

We estimate that including Internal Affairs Bureau expenditures in the cost model could result in approximately \$803,000 of the \$6.3 million being allocated to contract cities. The billing rate for a one-deputy 40-hour patrol unit would increase approximately \$790 (0.4%).

Another method to share Internal Affairs costs with contract cities would be to compile actual cost data for investigations conducted in contract cities and incorporate the actual costs into the cost model. We are working with the Sheriff to identify actual cost information for contract city investigations.

Sheriff Concerns – Internal Affairs Bureau

Sheriff management indicated that the Internal Affairs Bureau occasionally conducts investigations for other County departments and independent police agencies and that costs for these outside investigations should not be billed to contract cities. We are working with the Sheriff to identify the portion of the Bureau's costs that are attributable to contract and independent cities. If the Board elects to bill independent cities for these services, we would assist the Sheriff in developing a separate billing rate for costs attributable to independent cities.

Undersheriff

Undersheriff costs estimated at \$8.8 million for FY 2004-05 are specifically excluded administrative costs according to the Government Code. However, we noted that a portion of the costs allocated to the Undersheriff cost category include expenditures associated with the Sheriff's Bureau of Compliance. This Bureau is responsible for ensuring the Department's compliance with the Americans with Disabilities Act, Affirmative Action policies, and the Bouman Consent Decree requirements. These appear to be personnel related costs that are not excluded per the Government Code or current Board policy. Therefore, we believe these costs could be included in the cost model.

During their annual billing rate calculation, the A/C could incorporate the Bureau of Compliance's costs into the cost model along with other support costs that are currently allocated department-wide (e.g., Personnel costs, Fiscal Administration costs, etc). If this method were used for FY 2004-05, our preliminary estimate is that up to \$6.1 million would be added to the cost model. This would result in an additional \$770,000

being allocated to contract cities. The billing rate for a one-deputy 40-hour patrol unit would increase by approximately \$760 (0.4%).

We are working with the Sheriff to refine the potentially billable personnel costs and ensure these costs are removed from the Undersheriff category and are accounted for in a personnel related cost category.

Sheriff Concerns - Undersheriff

Sheriff Contract Law management indicated that billing for costs related to implementing and complying with Bouman Consent Decree requirements would not be fair to contract cities since the Consent Decree arose from internal Sheriff management issues. In addition, management indicated that the Compliance Bureau would exist in its entirety even if there were no contract cities. However, based on our preliminary review, it appears these personnel related costs may be affected by the number of Sheriff staff. Since the Sheriff has additional staff due to contract cities, we believe any additional costs could potentially be billable. We are working with the Sheriff to resolve this issue.

Summary – FOR Administration, Internal Affairs, and Undersheriff

As indicated above, we estimate that the potentially billable costs attributable to contract cities from FOR Administration (\$2.7 million), Internal Affairs (\$803,000), and Office of the Undersheriff (\$770,000) total approximately \$4.3 million.

Facilities Services

The Sheriff's Facilities Services and Facilities Planning Bureaus (facilities bureaus) are responsible for the maintenance and renovation for all 546 Sheriff facilities, energy management, construction of new facilities, and administration and management of all leased space. Total facilities costs for FY 2004-05 are estimated to be \$41.4 million. Currently, 95% (\$39.3 million) of facilities costs are excluded from the contract city cost model.

We noted that current Board policy does not have a provision indicating that any facility related costs should be excluded from contract city billings calculations. Therefore, the 95% exclusion does not appear to be necessary and 100% of the facilities bureaus' costs could be included in the cost model. We estimate that including the entire \$41.4 million into the cost model would result in the contract cities being billed an additional \$4.8 million per year. The cost of a one-deputy 40-hour patrol unit would increase by approximately \$4,720 (2.6%) per year.

Another method to share facility costs with contract cities would be to compile actual cost data for all facilities used by contract city patrol staff and incorporate the actual costs into the cost model for patrol stations. We are working with the Sheriff to identify actual facility cost information for Sheriff patrol stations.

Sheriff Concerns – Facilities Services Bureau

Sheriff Contract Law management indicated that they believe only a very small portion of facilities costs are for patrol stations. Therefore, Contract Law management indicated that including additional facilities costs into the cost model would over-allocate costs to patrol stations and to contract cities. As mentioned, we are working with the Sheriff to identify actual facility cost information for Sheriff patrol stations.

Advanced Training

The Sheriff provides advanced training such as firearms training, drug and alcohol recognition training, medical/CPR certification, and traffic enforcement and collision response training to Department and independent cities' employees. Total costs of advanced training for FY 2004-05 are estimated to be \$6.9 million. The cost model currently excludes 25% (\$1.7 million) from the contract city billing rates.

Sheriff management indicated that the current cost model excludes 25% of the advanced training costs, since several advanced training courses are custody related and do not benefit contract cities. However, we noted that the current cost model already includes provisions to allocate costs to non billable department functions such as Custody, Court Services, etc. In addition, the current Board policy does not have a provision indicating that any advanced training costs should be excluded. Therefore, the 25% exclusion does not appear to be appropriate and 100% of the advanced training cost should be included in the cost model (less any State or Federal reimbursements. See Attachment III for additional information).

If the additional 25% or \$1.7 million of advanced training costs were included in the cost model, contract cities would be allocated an additional \$56,000, and the cost of a one-deputy 40-hour patrol unit would increased by approximately \$55 per year (0.03%).

If the Board elects to bill for the Advanced Training services provided to independent cities, we would assist the Sheriff in developing billing rates. Also, the Sheriff would need to develop procedures to account for the costs associated with independent city trainees. In addition, any amounts allocated to independent cities would need to be excluded from the cost model for the contract city billing rates and would result in a reduction in the estimated contract city allocation for advanced training expenditures indicated above. We are working with the Sheriff to identify the portion of the Advanced Training costs that are attributed to independent cities.

Sheriff Concerns – Advanced Training

The Sheriff expressed concern that they incur some unavoidable costs for each Advanced Training class regardless of contract and independent city staff attendance, and that these costs should be excluded from amounts billed to contract or independent cities. Additionally, gathering this cost data may require additional staff. We are working with the Sheriff to address these concerns.

Search and Rescue Unit

The Search and Rescue unit is part of the Sheriff's Aero Bureau and provides mountain and other types of rescues throughout the County and performs over-water operations during major incidents requiring aerial support. Based on the CAO's May 2004 report, the Sheriff identified approximately \$12 million in unbilled Aero Bureau expenditures for FY 2004-05. Sheriff management indicated that they do not maintain records to identify the portion of Aero Bureau expenditures that are attributable to the Search and Rescue unit.

We noted that Government Code section 26614.5 states that the city of residence of a person searched for or rescued by the sheriff shall pay to the county conducting the search and rescue all of the reasonable expenses in excess of \$100. However, per the Department's internal policy, the Sheriff does not currently bill and/or receive reimbursement for the costs associated with conducting the search and rescue operations for either contract or independent cities.

The A/C and Sheriff have developed Search and Rescue billing rates of approximately \$4,800 per hour for aircraft plus an additional \$83 to \$123 per hour for each crew member. While the Sheriff has systems to track aircraft patrol time spent in contract and independent cities, they do not currently use these systems to track their search and rescue services.

We will be working with the Sheriff to further evaluate the practicality and potential impact of billing for search and rescue services.

Sheriff Concerns – Search and Rescue Unit

Sheriff Contract Law management indicated that it would be politically sensitive to bill cities for search and rescue services. Sheriff management also noted that federal grants currently fund the costs for the rescue helicopters and that these grant funds should be excluded from billable costs. We are working to determine the amount of these grants and ensure they are not included in the Search and Rescue billing rates.

Summary – Facilities Services, Advanced Training, and Search and Rescue

As indicated above, we estimate that the potentially billable costs attributable to contract cities from Facilities Services (\$4.8 million) and Advanced Training (\$56,000) total approximately \$4.85 million. Potential Search and Rescue billings are unknown at this time.

General Contract and Independent City Concerns

The California Contract Cities Association (CCCA) and the Independent Cities Association (ICA) continue to stress their significant opposition to the Board's order for the A/C to study the Sheriff's unbilled costs and services. Specifically, the CCCA and

ICA are concerned that charging for services previously identified as Countywide will force cities to reduce the standard law enforcement services provided to their citizens, and result in differing law enforcement service levels for the citizens of the County. In addition, the CCCA indicated that an extensive survey of its member cities revealed that cities have contributed in excess of \$38 million over several years in equipment, facility improvements, vehicles and program costs that are above and beyond amounts cities have paid in law enforcement contractual services. We are continuing to work with the Sheriff and CCCA to evaluate the impact of these donations on contract billing rates.

The CCCA and Sheriff management also indicated that billing for certain specialized services such as homicide, narcotics, arson, and communication services is more controversial than other unbilled functions, since these services do not have city boundaries, require substantial expertise and have historically been provided as a Countywide service without charge based on Board policy. As mentioned, we will evaluate these concerns further during Phase II of our review.

**Sheriff Contract City Billing Practices Review
Phase I and Phase II Estimated Costs by Organizational Unit**

<u>Phase I</u>		<u>Phase II</u>	
Organizational Unit	FY 2004-05 Est. Total ¹ Costs	Organizational Unit	FY 2004-05 Est. Total ¹ Costs
Admin Services Division Admin	\$ 16,652,773	Arson/Explosives	\$ 4,833,795
Advance Training	\$ 6,854,448 ²	Cargo Theft	\$ 1,834,282
Aero Bureau	\$ 11,992,512 ^{2, 3}	Communications	\$ 29,217,638
Contract Law	\$ 2,182,544	Computer Crimes	\$ 1,935,617
Data Systems	\$ 34,760,040	Detective Division Admin	\$ 1,901,897
Facilities Services	\$ 41,364,070 ²	Emergency Operations	\$ 5,105,233
Field Oper Regions I, II and III Admin	\$ 9,111,621 ²	Family Crimes	\$ 7,723,736
Internal Affairs	\$ 6,313,194 ²	Forgery/Fraud	\$ 5,337,946
Internal Criminal Investigations	\$ 3,937,381	Homeland Security Admin	\$ 6,962,431
Leadership and Training Admin	\$ 3,250,991	Homicide Bureau	\$ 21,454,690
Office of the Assistant Sheriff	\$ 1,797,282	Major Crimes Unit	\$ 14,475,644
Office of the Sheriff	\$ 2,208,267	Narcotics Bureau	\$ 23,193,120
Office of the Undersheriff	\$ 8,833,364 ^{2, 4}	Records and Identification	\$ 15,689,294
Sheriff's Headquarters	\$ 7,209,515	Recruit Training	\$ 20,412,148
		Reserve Forces	\$ 2,278,239
		Safe Street Bureau	\$ 21,725,994
		Scientific Services	\$ 22,441,835
		Special Enforcement	\$ 13,028,089
		Technical Services Admin	\$ 1,621,817
Total:	\$156,468,002		\$221,173,445

Footnote Legend

- 1 - Estimated total costs based on the amounts indicated in the CAO's "Review of Contract Law Enforcement Services Costs" report issued on May 20, 2004.
- 2 - Details of our findings for this organizational unit are included in this status report.
- 3 - Details of our findings include only the Search and Rescue unit from the Aero Bureau.
- 4 - Details of our findings include only the Bureau of Compliance portion of the Office of Undersheriff.

Sheriff Contract City Billing Practices Review
Preliminary Estimated Impact of Charging for Currently Billable Services

Currently Billable Unit/Function	Est. Total Cost FY 2004-05 Per CAO Report	Estimated Add'l Amt Alloc. to CC ⁷	Est. 40-Hour Deputy Rate Increase	Est. Cumulative New Rate	% Increase Over Current Rate
FY 2004-05 One-Deputy 40-Hour Patrol Unit Rate	N/A	N/A	N/A	\$ 177,117	N/A
FOR Administration	\$ 9,111,621	\$ 2,700,000 ¹	\$ 2,600	179,717	1.5%
Internal Affairs	6,313,194	803,000 ³	790	181,267	0.4%
Undersheriff Bureau of Compliance	8,833,364	770,000 ²	760	180,477	0.4%
Facility Services	41,364,070	4,800,000 ⁴	4,720	185,987	2.7%
Advanced Training	6,854,448	56,000 ⁵	55	186,042	0.0%
Search & Rescue ⁶			Unknown		
Total:	<u>\$ 72,476,697</u>	<u>\$ 9,129,000</u>	<u>\$ 8,925</u>		<u>5.04%</u>

Note: The estimates of the potential billing impact are preliminary and could change as we continue our review.

1 - Estimated contract city share based on the percentage of contract city deputies to the total patrol deputies. Sheriff management indicated there may be unbillable costs included in this category. We are working to identify these amounts and ensure they are not billed.

2 - Estimated contract city share based on distributing \$6.1 million in costs for the Bureau of Compliance with other department-wide support costs into the cost model.

3 - Estimated contract city share based on distributing \$6.3 million in costs with other department-wide support costs into the cost model.

4 - Estimated contract city share based on distributing all facilities costs as department-wide support costs into the cost model, less the \$252,000 currently included in the cost model.

5 - Estimated contract city share based on incorporating \$400,000 (\$6.9 million total costs, less \$5.2 million currently included in the cost model and \$1.3 million in State reimbursements) as department-wide support costs into the cost model.

6 - We are working with the Sheriff to determine the impact of billing for search and rescue services.

7 - Contract Cities (CC)